

# REVENUE ANALYSIS

## Economic Overview

Services provided by Chesterfield County to its citizens are funded by a combination of local, state, and federal revenue. Therefore, when examining the fiscal health of the County, economic impacts at all three levels of funding must be considered. Generally, the amount of revenue available to the County depends on current and future economic activity.

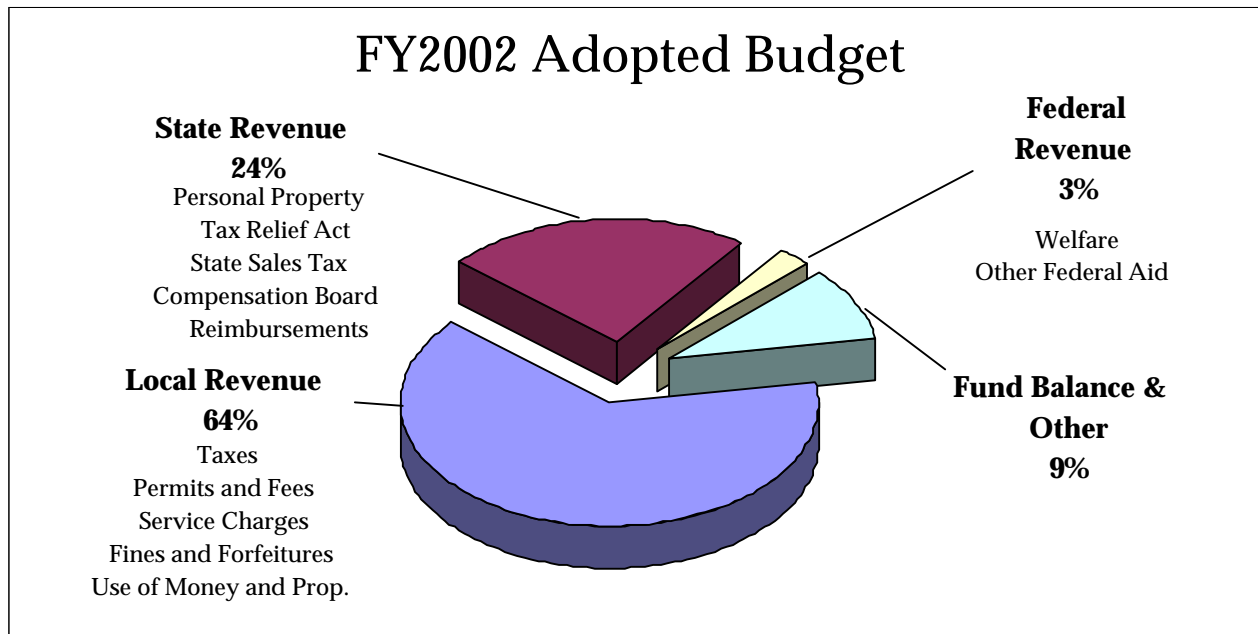
Locally, Chesterfield has seen a slow-down in many areas key to the County's revenue structure that were booming during the recent period of economic growth. Most notably, the number of single-family building permits decreased 19% between the third quarter of 1999 and third quarter 2000. Retail sales grew at a 5.2% rate for the same time period, slower than the 6.0% growth rate experienced the year ending September 1999. On a brighter note, growth in employment in the Richmond- Petersburg region accelerated from September 1999 to September 2000 as both the nation and the state as a whole slowed during that same time period. Car registrations in the County showed a 1% increase for the first six months of fiscal year 2001 over the first quarter of fiscal year 2000.

At the state level, the slowing of revenue growth made headlines in December 2000, as the state's forecasters revised their fiscal year 2001 and fiscal year 2002 tax revenue estimates downward. The

significant increase in taxable income the state enjoyed in 1999 and 2000 was not projected to continue into 2001, largely due to stock market downturns and rising interest rates. These revisions led to much debate over the state budget, resulting in adjournment of the General Assembly without any amendments to the budget adopted in the 2000 session. The state budget has significant impacts on the County, which will be discussed later in this narrative.

The national economic picture resembles that of Virginia as the boom of recent years noticeably slows to a more moderate pace. Economists predict national economic growth to slow to a 2-2.5% rate in 2001. Retail activity slowed in the later months of 2000, and a disappointing holiday season further restrained expectations for 2001.

To better prepare the County for these economic impacts, the Board of Supervisors appointed a Tax Structure Study Committee in January 2000. This Committee, comprised of representatives of business, industry and the community, was charged to recommend a reliable and stable tax structure that assures tax equity and that fairly balances the responsibility for service delivery among all segments of the community. After nearly a year of data gathering, analysis, and solicitation of public input, the Tax Structure Committee's final report was



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presented to the Board in November 2000. Staff is working on developing an implementation plan for many of the recommendations contained in the report.

These national and local trends and their effect on Chesterfield County's revenues have also been a topic

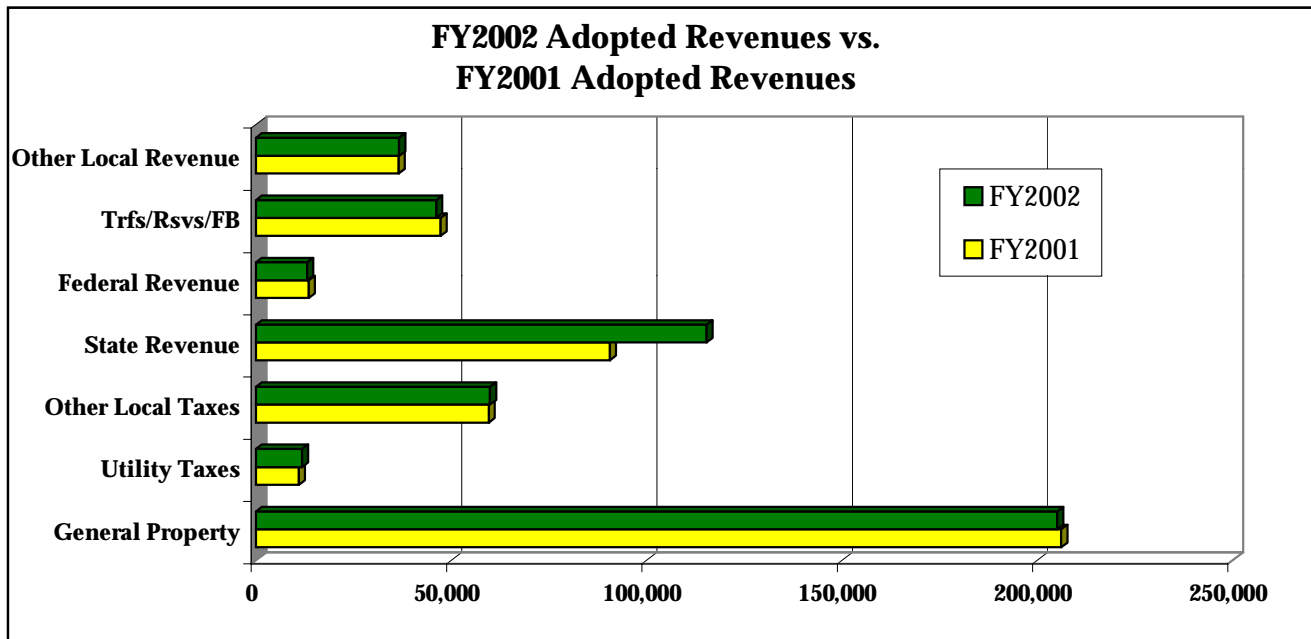
of conversation at annual Revenue Forums. These forums allow staff from Chesterfield and surrounding localities to seek the expertise of business leaders and academicians from the region and apply this knowledge and foresight to the County's revenue projections. As a result of these meetings, the current economic outlook calls for caution regarding FY2002 revenue projections.

## General Fund

The County's General Fund supports many of the services typically associated with local government. These include education, police and fire protection, emergency medical services, health and welfare services, libraries, parks and recreation, community development, and general government administration.

Under ideal conditions, General Fund revenues would grow at a rate sufficient to offset the combined effects of inflation of current expenditures and demand for additional services, and should be flexible to allow for adjustments to changing conditions.

Currently, Chesterfield County revenues come from seven major categories. While this seems like a diverse revenue structure that would allow for flexibility to meet changing conditions, the chart below illustrates the County's dependence on general property taxes as its largest source of revenue. The chart also shows the growing dependence on State revenues, largely due to Personal Property Tax Relief Act revenue that will be discussed in a later section. Chesterfield and other localities have lost some flexibility to modify revenue structures and meet the changing demands of their citizens as state subsidies have replaced the ability to locally generate revenue.



The FY2002 General Fund budget reflects an increase in locally generated revenue of only 0.08% compared to the FY2001 Adopted Budget. Locally generated revenues include all property taxes (real, personal, and other), other local taxes, sales taxes, permits and fees, fines and forfeitures, revenue from the use of money and property, service charges and

miscellaneous revenue. The FY2002 budget does not include any increases in the rates for these taxes or fees.

Locally generated revenues contribute \$313.6 million, or 64.2%, of total FY2002 General Fund revenues. State revenues are expected to provide \$115.4 million

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or 24% and Federal revenues are projected to provide \$13.1 million or 3% of total FY2002 General Fund revenue. Fund Balance, transfers and reserves make up the remaining \$46.2 million, or 9%. In years prior to FY99, State revenue provided about 12% to 15% of total revenues; the increase to 24% is due to implementation of the Personal Property Tax Relief Act mentioned above.

These pages describe the County's major General Fund revenue categories. The explanations are intended to provide a brief description of each major revenue in the FY2002 budget. Appendix D of this document contains a more detailed, line-item specific list of individual revenues in each category.

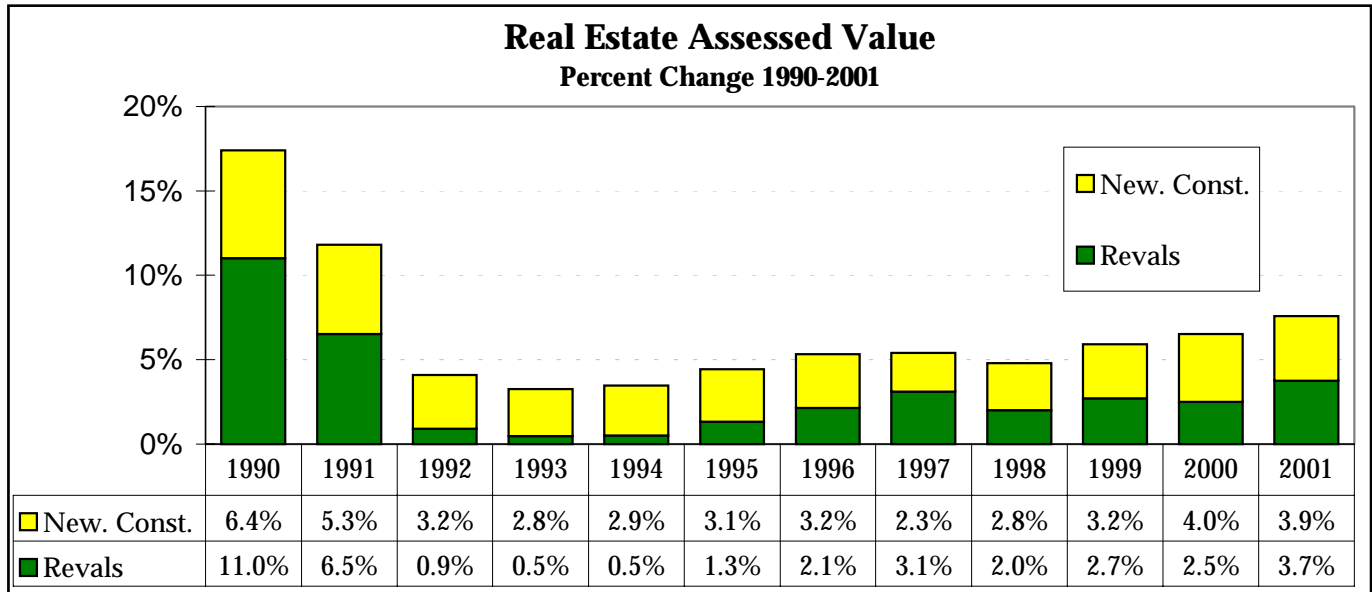
## **LOCAL REVENUE**

	<b><u>1999 Actual</u></b>	<b><u>2000 Actual</u></b>	<b><u>2001 Adopted</u></b>	<b><u>2002 Adopted</u></b>
Real Estate Tax	\$147,921,311	\$158,270,023	\$162,383,300	\$175,188,100
% of Total Local	49%	50%	52%	56%
Personal Property Tax	49,116,151	44,905,094	37,593,600	23,959,400
% of Total Local	16%	14%	12%	8%
Other Property Tax	6,576,884	7,226,242	6,204,100	6,037,600
% of Total Local	2%	2%	2%	2%
Other Local Tax	40,922,180	43,170,103	41,637,500	43,007,900
% of Total Local	14%	14%	13%	14%
Local Sales Tax	25,337,501	26,579,573	29,008,300	28,773,500
% of Total Local	8%	8%	9%	9%
Other Local Revenue	30,357,303	35,006,251	36,567,100	36,674,100
% of Total Local	10%	11%	12%	12%
<b>TOTAL LOCAL</b>	<b>\$300,231,330</b>	<b>\$315,157,286</b>	<b>\$313,393,900</b>	<b>\$313,640,600</b>
	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Property taxes are the largest source of locally generated revenues received by the County. In the County Administrator form of government, the County Assessor assesses all real property, the

Commissioner of the Revenue assesses personal property and the Treasurer is responsible for the collection of all taxes and payments made to the County.

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## Real Estate

The FY2002 budget maintains the real estate tax rate at \$1.08 per \$100 of assessed value. The rate is set and taxes are levied on a calendar year basis. Payments of real property taxes are due on June 5<sup>th</sup> and December 5<sup>th</sup>. The County's collection period crosses fiscal years, making real property tax revenue relatively predictable. For example, the December levy is based on the June levy, plus a supplement for any new construction occurring during the year. The County collects approximately 98% of the December levy and 97% of the June levy prior to the end of the fiscal year. Property is assessed at 100% of market value and the state-reported assessment to sales ratio is between 90% and 95%.

The County expects to generate approximately \$175.2 million in real estate taxes during FY2002. Real estate is the single largest source of revenue in the County budget. The above amount includes public service real estate and current and delinquent taxes. The FY2002 budget projects a 7.9% (or \$12.8 million) increase in real estate taxes over the FY2001 Adopted Budget. The FY2002 estimate considers existing land values, current and expected rates of inflation, and trends in new residential and commercial construction.

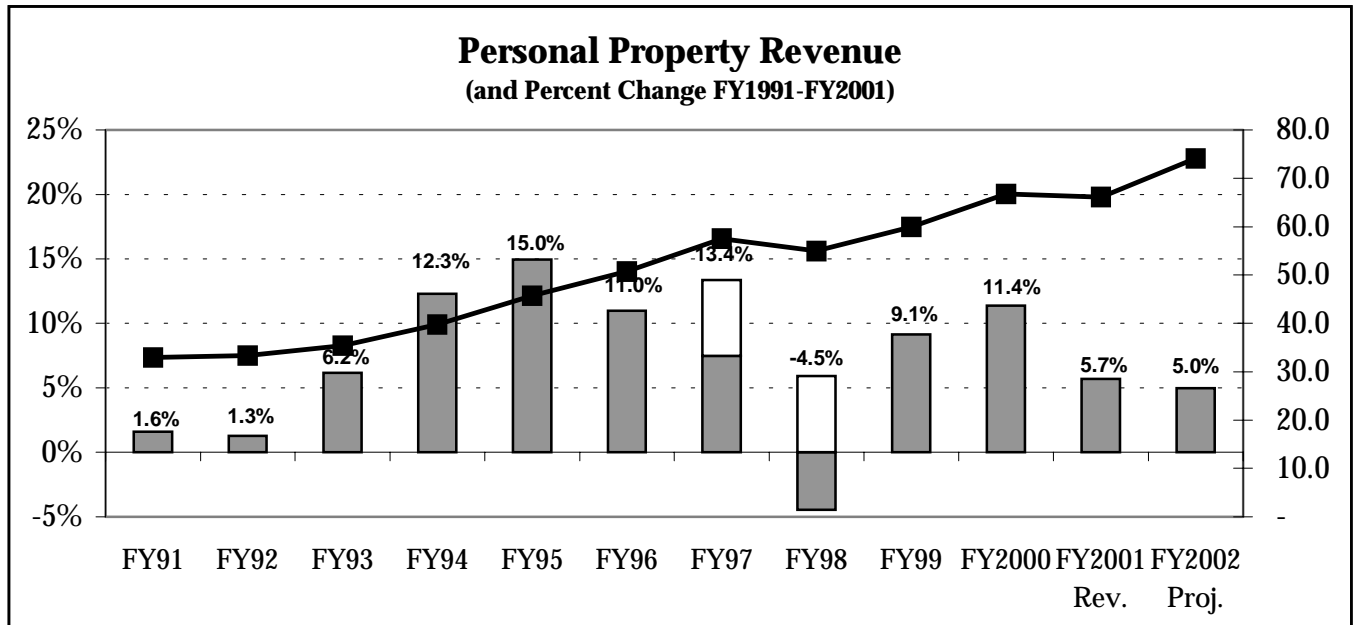
## Personal Property

The budget maintains the personal property tax rate of \$3.60/\$100 of assessed value. The rate is set and taxes are levied on a calendar year basis and payments are due on June 5<sup>th</sup>.

Personal property taxes are projected to provide \$24.0 million in revenue during FY2002, including current and delinquent taxes on regular personal property, airplanes and mobile homes. Personal property is projected to provide 8% of all local revenue during FY2002. In years prior to FY99, personal property provided approximately 15% of all local revenues; the decrease to 8% is due to the implementation of the

Personal Property Tax Relief Act whereby a portion of property tax revenues are now classified under state revenues as a reimbursement. Assuming the Act is fully implemented in FY2002, the state will reimburse the County for 100% of the tax on vehicles owned by individuals with an assessed value under \$20,000. Business vehicles and other forms of personal property will continue to be assessed by the County and paid in full by the owner. Personal vehicles with an assessed value over \$20,000 will pay tax only on the portion of the assessment over \$20,000. The FY2002 estimate assumes continued growth in personal property revenue.

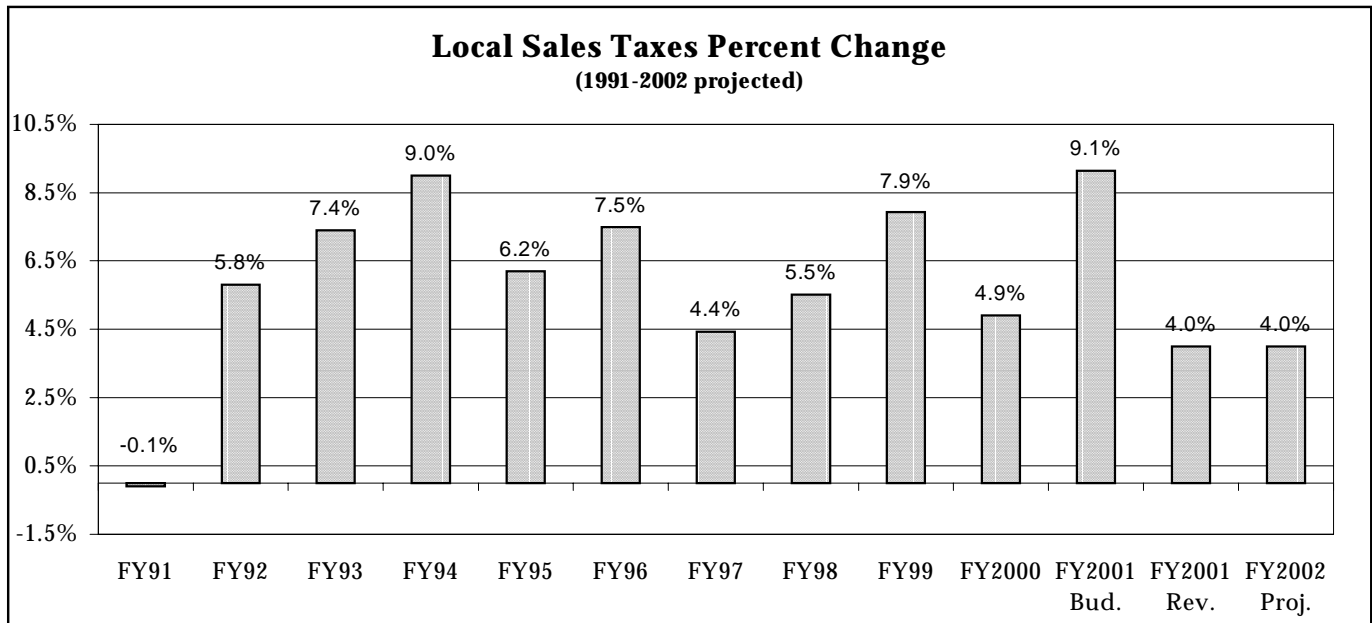
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## Local Sales Tax

Local sales tax is a point of sale tax collected by County businesses. Of the 4.5% sales tax collected on each sale, 1% is remitted back to the County and 3.5% is considered state revenue. The County anticipates receipts of the 1% local option sales tax in FY2002 to total \$28.8 million. This amount is projected to be 4.0% more than revised FY2001 estimates, however the FY2001 was revised downward during the year to

reflect slower retail sales and subsequent revenue collections for the County. The year 2000 has been a somewhat disappointing year for retailers in the area and across the nation. Revenue projections for sales tax are based upon trend analysis and expert guidance offered at the annual Revenue Forum.



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## **Other Local Taxes**

The Other Local Tax category includes taxes such as the Consumer Utility tax, Motor Vehicle tax, Business Professional and Occupational License tax, Bank Stock tax, Recordation tax, and Transient Occupancy tax. Other Local Taxes account for 14% of local General Fund revenue for FY2002. Listed below are descriptions of the largest taxes in this category.

### **Consumer Utility Tax**

This tax is levied on all telephone, electric, gas and mobile phone service purchased by County residents. The mobile phone utility tax is currently utilized to fund the cost of providing public safety services to citizens. The County anticipates utility tax receipts for FY2002 to total nearly \$11.8 million, or an increase of about 5.4% over the FY2001 revised budget. Utility tax revenue projections are based on expected utility consumption increases and projected population growth.

### **Motor Vehicle Tax**

A license tax is charged on every motor vehicle, trailer or semi-truck trailer normally garaged, stored, or parked in the County. The cost of the license varies according to the type and weight of the vehicle. The FY2002 budget includes \$5.7 million for this tax. Projections are based on prior revenue history and expected rates of growth in car registrations.

### **Business and Professional Occupations License Tax (BPOL)**

This tax is levied on all businesses in Chesterfield County. The business is assessed as of January 1 of each year and the tax is based on the type of business and the volume of business activity.

Since FY97, the Board has taken several steps to reduce BPOL taxes for businesses in the County. The Board eliminated gross receipts taxes for businesses under \$100,000 gross receipts and replaced this with a graduated flat fee for businesses over \$10,000 but under \$100,000 in gross receipts. This fee was capped at a \$50 maximum in FY2000. Businesses with gross receipts exceeding \$100,000 are no longer required to pay a licensing fee in addition to their taxes. Changes to the professional services category resulted in approximately 130 businesses moving to other

categories where they are taxed at lower rates. And finally, in FY2000 the County began additional reductions in the BPOL tax, with the goal of “capping” future BPOL revenue at the FY99 Adopted level. This resulted in \$40,000 gross receipts exemptions for businesses paying the tax in 2000; this level was raised to \$100,000 for 2001.

### **Transient Occupancy Tax**

This tax is assessed on the amount paid for room or space rented in hotels, motels, campgrounds, and other temporary lodging facilities. The local tax of 8% is divided into two parts; the 2% tax is used by the County for general fund purposes, and the 6% tax is dedicated for the expansion of the Richmond Convention Center.

## **Other Local Revenue**

This category includes all other local revenue not included above; specifically, Permits and Fees, Fines and Forfeitures, Use of Money and Property, Service Charges, and Miscellaneous Revenue. This category represents 12% of local General Fund revenue, or \$36.7 million. Listed below are descriptions of the larger revenues in this category.

### **Building Permits**

This category includes all building, electrical, plumbing and heating permit fee revenue. Fees are based on the estimated cost of construction. The building permit fee structure was simplified in FY2000.

### **Interest on Investments**

The FY2002 General Fund budget includes \$2.7 million in General Fund investment interest. The Treasurer is responsible for the County's investment program. Funds are invested in securities as outlined in the Virginia Public Deposits Act and the Code of Virginia.

Investment tools primarily consist of certificates of deposit, treasury bills, the Virginia State Treasurer's Investment Pool and repurchase agreements. Investment earnings are a function of interest rates

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and the amount of cash available for investment purposes.

## STATE REVENUE

The FY2002 budget includes \$115.4 million in state revenues. This represents an increase of 21% or \$24.8 million over the FY2001 Adopted Budget. Of the \$24.8 million increase, \$21.6 million is the expected increase in the state reimbursement for personal property tax relief. One of the largest revenue sources in this category, state sales tax, is projected to decrease by about \$0.2 million from the FY2001 Adopted Budget, while most other revenues from the state are projected to stay relatively unchanged or increase incrementally for FY2002.

The County faced significant uncertainties regarding the state budget at the time the County's FY2002 budget was adopted. The Virginia General Assembly adjourned its 2001 session without adopting amendments to the state budget, resulting in an unbalanced budget with few or no increases in funding to localities in FY2002. In an effort to balance

the state budget, the Governor made cuts or reduced estimates in several local revenue sources, including aid to localities with police departments (HB599), ABC profits, wine taxes, and state sales taxes. The state budget in effect at the time of this printing did not include salary increases for constitutional officers, teachers, and other state supported local employees.

This document incorporates the known effects of the state budget at the time of adoption,

## FEDERAL REVENUE

Federal Revenue is expected to decrease about \$0.5 million from FY2001 to FY2002. A portion of this decrease is due to the value of food stamps distributed to County residents. Since the inception of Welfare Reform, food stamp cases have declined from an average monthly caseload of 4,341 in FY95 to 2,846 in FY99. Another cause of this decrease is a significant decrease in the funding of police grants by the federal government.

## TOTAL REVENUE

	<b>1999</b>	<b>% of</b>	<b>2000</b>	<b>% of</b>	<b>2001</b>	<b>% of</b>	<b>2002</b>	<b>% of</b>
	<b><u>Actual</u></b>	<b><u>Total</u></b>	<b><u>Actual</u></b>	<b><u>Total</u></b>	<b><u>Adopted</u></b>	<b><u>Total</u></b>	<b><u>Adopted</u></b>	<b><u>Total</u></b>
Local Revenue	300,231,330	70%	362,300,638	72%	313,393,900	67%	313,640,600	64%
State Revenue	62,867,902	15%	81,248,995	16%	90,654,300	19%	115,416,000	24%
Federal Revenue	13,230,839	3%	13,510,955	3%	13,592,800	3%	13,113,200	3%
Fund Balance & Other	<u>53,484,790</u>	12%	<u>47,143,353</u>	9%	<u>47,305,600</u>	10%	<u>46,193,500</u>	9%
<b>Total</b>	<b>\$429,814,861</b>	<b>100%</b>	<b>\$504,203,941</b>	<b>100%</b>	<b>\$464,946,600</b>	<b>100%</b>	<b>\$488,363,300</b>	<b>100%</b>

## **Fee Changes**

The FY2002 budget includes an increase in the following departmental revenue to cover the cost of service enhancements.

## **Utilities**

FY2002 includes an increase in the water connection fee for initial connections to the County's water system. This increase of \$250 will set the connection fee at \$3,092. Prior to 2001, the water connection fee had not changed since 1991. FY2002 is the second

year of a four-year phase in of connection fee increases. Additional increases of \$250 are anticipated over the next two years; however, an evaluation will be made annually prior to making a recommendation to the Board of Supervisors.

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## **Special Revenue Fund**

Special Revenue funds are used to account for the proceeds of specific revenue sources (other than Capital projects) that are legally restricted to expenditures for specified purposes.

Special Revenue funds include Comprehensive Services, Schools, Grants, and Capital Projects.

### School Fund:

This fund reflects revenues and expenditures related to the operations of the County's public school system. The primary sources of revenue, exclusive of transfers from the General Fund, are basic school aid payments from the Commonwealth and educational program grants.

### Grant Fund:

This fund reflects revenues and expenditures related principally to the federal government's Community Development Block Grant, the Virginia Juvenile Community Crime Control Act and other federal and state grant programs.

### Capital Project Fund:

Capital Project Funds are used to account for financial resources used for the acquisition, design, development, and/or construction of major capital facilities (other than those financed by Proprietary Funds).

## **Proprietary Fund Types**

Proprietary Funds are used to account for the County's on-going organizations and activities that are similar to those often found in the private sector. The following are the County's proprietary fund types:

### Enterprise Funds:

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing services to the general public, on a continuing basis, be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expense incurred, and/or net income is appropriate for capital maintenance, public policy, management control,

### Comprehensive Services:

This fund reflects revenues and expenditures related to the operations of the County's Comprehensive Services Program. The revenue sources are transfers from Schools, Social Services, General Fund, reimbursements from Colonial Heights and State Aid.

accountability, or other purposes. The County does not budget depreciation expenses in enterprise funds although it is recorded and reported in the annual financial report. Enterprise funds include the Airport and Utilities.

### Airport:

This fund accounts for the operations of the County Airport. The daily service functions of the Airport are handled by a fixed based operator (FBO). The FBO maintains a contract with the County for rental of building and hangar space, which in turn provides a significant portion of the Airport's revenues. The County retains responsibility for all federal and state funded improvement projects. The Airport's major expenditures consist of salaries and wages, maintenance, debt and depreciation. Debt service on revenue bonds issued to construct facilities is accounted for through the Airport Fund.

### Water Fund:

This fund accounts for the operation, maintenance and construction of the County's water system. Charges for service represent the major source of operating revenue.

### Wastewater Fund:

This fund accounts for the operation, maintenance and construction of the County's sewer system. The fund's major source of operating revenue is charges for service.

### Internal Service Funds:

Internal Service funds are used to account for the costs of operations for services provided to other County departments. Revenue is derived from charges on a cost reimbursement basis.

### Construction Management:

This fund reflects the operation of the County's construction management function. The fund's only



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source of revenue is charges for services provided in coordinating and supervising all County building construction projects.

## **Vehicle and Communications Maintenance Fund:**

This fund reflects operations of the County's garage, which maintains the vehicles and communication equipment. Revenues are derived from inter-fund charges on a cost-reimbursement basis.

## **Risk Management Fund:**

This fund reflects the operations of the County's Risk Management function. Charges for services of providing risk financing and recoveries are the major source of revenue for this fund. Major expenditures consist of re-insurance costs and claims.